

Economic Defense of the Americas

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PRESIDENT ROOSEVELT said on June 21, 1940 that a part of a program of economic defense, designed to supplement our military defense program, is a proposal to the governments of this hemisphere

to create by mutual agreement an appropriate inter-American organization for dealing with certain basic problems of their trade relations, including an effective system of joint marketing of the important staple exports of the American Republics.

The condition in foreign trade of which this proposal is symptomatic arrests our attention. From the beginning, Nazi Germany made foreign trade an instrument of political power. She set out to organize her import trade in the interests of her exports and her foreign policy. She established double money, subsidized her exporters, and negotiated agreements with economically weak countries under which she forced them to divert their purchases to Germany from countries in which they would ordinarily buy. Trade was thus canalized and reduced in substance to barter. The traditional methods of international exchange were set at naught and for them were substituted subsidies, dumping, exchange control and currency manipulation, government monopolies, quotas, and, in general, quantitative restrictions on the movement of goods. The German state, in short, took over private trade and finance to serve its political ends and then justified and supported its economic aggression with propaganda and other methods of an authoritarian state.

Germany was not slow in extending her trade methods, supported by the preaching of her ideology, to Latin

American countries. The exportable surpluses of food and raw materials of these countries offered a ready basis for barter arrangements. The German trade offensive was accompanied by a policy which sought control of industries, mines, and transportation, particularly air lines, and which by radio and other means spread Nazi doctrines. These methods were not without effect on groups which profited economically, and on German minorities. At the Lima Conference in 1938 the delegates were aware of this threat to the independence and security of this hemisphere. Mr. Hull, the American Secretary of State, reminded the Conference in his opening address "that armed force is not the only instrumentality by which nations can be conquered." And José María Cantilo, the Foreign Minister of Argentina, also said:

... We are resolved to repel . . . everything implying a threat against the American order, every infiltration of men or ideas that reflect and tend to implant in our soil and in our minds concepts foreign to our manner of life, ideals antagonistic to ours, forms of government that menace our liberties, theories that undermine the social and moral peace of our people, or political fanaticisms or fetishes that cannot flourish under the sky of the Americas. . . .

THE POSSIBLE MENACE

If Germany should succeed in creating a European economic system unified under her political power, she would be in a position to deal with individual Latin American countries on her own economic and political terms. If she should continue to use foreign trade as an instrument of her policy of crusade and conquest, her bargaining power, if

unopposed, might be a menace to the security of the Western World and a challenge to the principles of the Monroe Doctrine and of the Declaration of Lima. An impoverished Europe would seek markets at any cost. Refugees and the demobilized millions would produce goods on the economic level of poverty and desperation, and Germany, if in control, would offer these goods in return for the food and raw materials of Latin America.

With these offerings our manufactured goods could not compete. Faced by such a comprehensive barter scheme, our investments in Latin America would be cramped and forced into retreat, for an attack on our trade front would be inevitably followed by an attack on our investment front. If the exportable surpluses of American-controlled industries in Latin America were to be drawn into the orbit of Nazi barter, dollar exchange would become less and less available to pay dividends and bond service in the United States. The tendency would be to render sterile our property holdings in Latin America. Moreover, Germany might take over the investments in Latin America of conquered European countries. The vast power in securities and in investments would add double strength to the economic penetration at first implemented by trade aggression. Finally, political and cultural ties would be loosened and the solidarity of the American states would be weakened if not destroyed.

STATISTICS OF LATIN AMERICAN TRADE

The economic structure of Latin America is peculiarly vulnerable to this attack. The exports of the twenty Latin American republics are made up almost entirely of industrial raw materials and foodstuffs derived from agriculture, mining, forestry, and animal husbandry. The most important commodities making up the list of Latin

American exports are: petroleum, coffee, corn, copper, nitrate, frozen and chilled meats, sugar, wheat, and wool. These constitute a high percentage of the exportable surplus of Latin America. Cacao, hides and skins, bananas, linseed, and cotton represent most of the balance.

As the requirements of the local population are small in proportion to production, a very large percentage of the output of the major products of Latin America is exported. In 1938, cereals, linseed, meat, and wool made up 75.7 per cent of Argentina's export values; coffee and cotton 63.3 per cent of Brazil's export values; copper, nitrate, and iodine 70.4 per cent of Chile's export values; coffee, petroleum, and bananas 82.5 per cent of Colombia's export values; sugar 82 per cent of Cuba's export values; petroleum and metals 75.7 per cent of Mexico's export values; petroleum, copper, cotton, and sugar 71.4 per cent of Peru's export values; petroleum and coffee over 90 per cent of Venezuela's export values.¹

To dispose of their surplus raw materials and foodstuffs has been the major economic problem of Latin American countries. The United States has only partially relieved this problem. Some of the commodities which we buy from Latin America are not produced in appreciable quantities anywhere else in the world, like coffee, bananas, and corned beef. Another group of our imports from Latin America consists of commodities in which Latin America has a strong competitive position, like cacao and nonferrous metals. The third group is made up of those products which compete with our domestic products, like cotton, corn, flaxseed, beef, sugar, oil, and wool.

Seven of the twenty countries of Latin America account for 86 per cent

¹ *Foreign Policy Reports*, Aug. 1, 1939, p. 117.

of the total Latin American exports: Argentina 24 per cent; Brazil 16 per cent; Venezuela 15 per cent; Mexico 10 per cent; Cuba 8 per cent; Chile 8 per cent; and Colombia 5 per cent.² During the decade 1929-38 the United States and the United Kingdom were the leading markets for Latin American products, but during that period Germany and Japan increased in importance. Of the total exports from all the countries of Latin America in 1938, the United States took 30.2 per cent; the United Kingdom 16.8 per cent; and Germany 10.5 per cent.

The United States is also the chief supplier of goods imported by Latin American countries. In 1938 the United States sent to Latin American countries 33.9 per cent of the goods which they received; the United Kingdom sent 11.7 per cent; and Germany 16.2 per cent. In the last five or six years Germany took over from the United Kingdom second place in this trade.

In fact, before the outbreak of the war the German trade methods were making substantial inroads in Latin America. In individual countries, such as Brazil, Chile, and Peru, Germany's advance was more serious than her general average for Latin America would suggest. If a victorious Germany should now include in her economic system the buying and selling power of all the countries of Continental Europe and possibly of Great Britain, her economic strength in Latin America would become controlling, as will appear if "Nazi Germany" is substituted for "Europe" in the accompanying table showing the percentages of Latin America's total exports and imports for 1938 by geographical areas.

The question then remains: How would Nazi Germany use this economic

LATIN AMERICAN TRADE, 1938

| Areas | Exports (Per cent) | Imports (Per cent) |
|-----------------------------------|-----------------------|-----------------------|
| <i>Total trade</i> | <i>100.0</i> | <i>100.0</i> |
| Europe (excluding U. S. S. R.) | 54.4 ^a | 43.6 ^b |
| North America | 31.2 | 35.0 |
| Latin America | 5.9 | 10.0 |
| Asia | 1.4 | 4.7 |
| Other areas | 7.1 | 6.7 |

^a United Kingdom alone 16.8 per cent.

^b United Kingdom alone 11.7 per cent.

strength? Judging her by her record and her declarations, we must conclude that such a controlling position might menace the peace and security of this hemisphere.

INTER-AMERICAN TRADE MEASURES

Before the war the American Government attempted to maintain its trade in Latin America by the trade agreements, which in principle and method are the antithesis of German commercial policy. It was argued that in the long run, equality of treatment, multilateral trade, and the resulting volume of trade would triumph over state-supported bilateral barter. In general, the American Government, under the leadership of Mr. Hull, was, in spite of many fallings-away in practice, able to maintain in principle its commercial policy throughout Latin America. The inter-American congresses beginning with Montevideo declared that "the principle of equality of treatment stands and must continue to stand as the basis of all acceptable commercial policy."

Limited results from the trade agreements program (for example, the failure to reach an agreement with Argentina) encouraged the adoption of other measures. The Export-Import Bank used government credit to finance our exports and to support the exchange position of certain of the countries. The Reconstruction Finance Corpora-

² See U. S. Tariff Commission, *The Foreign Trade of Latin America*, 1940, Part I, p. 30.

tion offered financial co-operation to develop enterprises in Latin America. A resolution of the Panama Conference in September 1939 created an Inter-American Financial and Economic Advisory Committee consisting of twenty-one experts, one from each of the American republics,

to increase healthy trade between us; to improve the monetary and financial mechanism by which trade and other commercial transactions are facilitated; to stimulate the employment of capital in such productive directions as may be found sound; to improve not only immediately but permanently the means of transport and communication between us; . . .

One of the first acts of this advisory committee was to set up a development commission to promote, with mixed United States and Latin American capital, the formation and financing of such enterprises as will undertake the development of new lines of Latin American production for which a new or complementary market can be found in the United States or in other republics of the Western Hemisphere.³

The Inter-American Financial and Economic Advisory Committee also drafted a project for an inter-American bank. The bank, as projected, would enjoy extensive powers. Its functions would be, among others, to facilitate the wise investment of funds; to assist in stabilizing the currencies of American republics; to increase international trade, travel, and exchange of services in the Western Hemisphere; to encourage research in the technology of agriculture and industry, public utilities, mining, and commerce; and to contribute expert advice on problems of public finance, exchange, money, and banking,

³ Resolution approved January 15, 1940. See *Bulletin of the Pan American Union*, June 1940, p. 472. Cf. also Henry A. Wallace, "Inter-American Agricultural Cooperation," *Foreign Agriculture*, May 1940.

as they relate specifically to the problem of the American republics.

To carry out these purposes the bank would be permitted to make long-, medium-, and short-term loans in gold and silver; to buy and sell bonds of participating governments and agencies, provided these are not in default; to buy, sell, deposit, and deal in precious metals, money, and currencies; to underwrite government loans, to accept deposits, and to conduct operations of discount and rediscount.

Capital would be expressed in United States dollars, in the amount of \$100,000,000, consisting of 1,000 shares having a par value of \$100,000 each to be paid for in gold or in dollars. For a government to participate in the bank it would be required to subscribe for a minimum number of shares, determined in relation to the dollar value of the total foreign trade of each of the American republics during the year 1938. None of the shares would be allowed to pass to other than governments of the American republics.⁴

A CARTEL PROPOSED

To these measures is now added the proposal of an inter-American joint marketing organization. Defense against unified buying is not new. In 1918 the American Congress passed the Export Trade Act, which permitted American exporters and producers to co-operate in the promotion of export trade. The act was designed, among other things, to protect American business against combinations of foreign buyers.⁵

The idea of a marketing cartel has developed along with the realization

⁴ The bank is only on paper. By the end of May 1940 nine nations had signed the convention. It requires legislation from the Congress of the United States and ratification by the adhering Latin American governments.

⁵ In 1916 the Federal Trade Commission, speaking of buying combinations, said: "These combinations naturally make individual Amer-

that Nazi Germany's victory would give that country the combined trading power of all the countries annexed and controlled, which, with the co-operation of the Axis partners, would enable her to exact her terms from the Latin American countries, desperately anxious to dispose of their surpluses of primary products. That the designs of Hitler's program for empire is not limited to Europe was revealed by the exposure of widespread and well-organized Nazi activities in Uruguay which, if successful, would have resulted in the capture of the agricultural resources of that country and in the use of them as a wedge for further conquest.

Since the United States is unable to absorb Latin American surplus products in the ordinary course of trade, other means are sought to offset the power of the regional economy of Nazi Germany; the other means visualize a competing regional economy embracing North, Central, and South America. The argument runs that an inter-American cartel, by buying and marketing the surplus commodities of the Latin American countries, would permit the Americas to organize effectively their bargaining power.

The Governments of Great Britain and France have used as a part of their blockade procedure the purchase of surpluses in their colonies and elsewhere. Finance has been enlisted to help keep raw materials and food from Germany. Such economic warfare is not the pro-

claimed purpose of the proposed inter-American marketing organization, although it might obviously be used to fight an enemy which pressed its aggression too far. For the present, the purpose of the marketing cartel would be to pool the economic strength of the Americas so that surpluses might be disposed of equitably and without political commitments.

On July 22, 1940, Mr. Hull, the Secretary of State of the United States, addressed the Second Meeting of Ministers of Foreign Affairs of the American Republics, at Habana. He said in part:

. . . the American nations can build a system of economic defense that will enable each of them to safeguard itself from the dangers of economic subordination from abroad and of economic distress at home. It is no part of our thought to obstruct in any way logical and natural trade with Europe or with any other portion of the world, but rather to promote such trade with nations willing to meet us, in good faith, in a spirit of friendly and peaceful purpose, and on a plane of frank and fair dealing. Against any other kind of dealing, we naturally will protect ourselves.

The economic accord approved by the Habana Conference charged the Inter-American Financial and Economic Advisory Committee to proceed:

(a) To co-operate with each country of this continent in the study of possible measures for the increase of the domestic consumption of its own exportable surpluses of those commodities which are of primary importance to the maintenance of the economic life of such countries;

(b) To propose to the American nations immediate measures and arrangements of mutual benefit tending to increase trade among them without injury to the interests of their respective producers, for the purpose of providing increased markets for such products and of expanding their consumption;

ican producers bid against each other, and are thus able to buy at comparatively low prices. According to the President of one of the largest American copper companies, the German metal-buying combination, by such tactics as these and by the manipulation of the foreign future markets, has bought millions of tons of American copper at prices averaging over a series of years, nearly a cent a pound below the prices paid by American consumers." *Report on Cooperation in American Export Trade, Part 1* (1916), p. 7.

(c) To create instruments of inter-American co-operation for the temporary storing, financing and handling of any such commodities and for their orderly and systematic marketing, having in mind the normal conditions of production and distribution thereof;

(d) To develop commodity arrangements with a view to assuring equitable terms of trade for both producers and consumers of the commodities concerned;

(e) To recommend methods for improving the standard of living of the peoples of the Americas, including public health and nutrition measures;

(f) To establish appropriate organizations for the distribution of a part of the surplus of any such commodity, as a humanitarian and social relief measure;

(g) To consider, while these plans and measures are being developed, the desirability of a broader system of inter-American co-operative organization in trade and industrial matters, and to propose credit measures and other measures of assistance which may be immediately necessary in the fields of economics, finance, money, and foreign exchange.

DIFFICULTIES OF THE CARTEL

Difficulties in the way of the success of the cartel are many, and they are not minimized by those who are responsible for the proposal. It would be a long step toward the acceptance of the very authoritarian methods which we deplore in Europe. It would invite further regimentation—control of production and investment. It has inspired the suggestion that the stamp-plan of the Federal Surplus Commodities Corporation be extended to the hemisphere. The storage and resale of surpluses would be a vast venture of governments in business. Millions of dollars would have to be provided by the United States. Moreover, the economic control necessary for the scheme could hardly be maintained successfully without some degree of political control as well.

A marketing cartel in fact presup-

poses a common desire of the American countries for economic defense; it presupposes a political understanding sufficiently definite to convert that desire into action. If one or more of the countries say that they do not want to be defended from Nazi economic methods, then what—? In raising this contingency I raise the ultimate question of our hemisphere policy. What will we do if one or more American countries join with a non-American country to nullify the Monroe Doctrine? For more than a century we have comforted ourselves by thinking that this could not happen. But what if it did?⁶ The American people will certainly ask for some political assurance on this point before they venture one or two billion dollars of their money and credit on a joint marketing organization.

CONTROVERSY WITH ARGENTINA

Each country in Latin America would present a separate problem in the organization and administration of the cartel. Take Argentina for an example. When the idea of a joint marketing organization was suggested, objection came from pressure groups in the United States which have exaggerated

⁶ The 76th Congress of the U. S., 3rd Session, approved a joint resolution reading in part: "(1) That the United States would not recognize any transfer, and would not acquiesce in any attempt to transfer, any geographic region of this hemisphere from one non-American power to another non-American power; and (2) That, if such transfer or attempt to transfer should appear likely, the United States shall, in addition to other measures, immediately consult with the other American republics to determine upon the steps which should be taken to safeguard their common interests." H. R. Report No. 2400 (June 5, 1940) which accompanied the resolution said: "It will be observed that the consultation with other American republics is 'in addition to other measures' taken by the United States. The United States is not restricted as to any measures it may see fit to take."

and misrepresented the competition of Argentine products in the American market. But it could be argued that joint marketing might afford a real opportunity in the present emergency for co-operation between the United States and Argentina—the two governments might collaborate (1) to find markets for their competitive surpluses, and (2) to defend their political security and independence.

The economic difficulties of American-Argentine trade, while real, have been overstated by representatives of farming and stock raising who are satisfied with nothing short of the complete exclusion of competing foreign products and of even their substitutes. Meat will serve as an illustration. Our severe sanitary or quarantine law against the importation of animals and meats has been resented in Argentina. Under the regulations of 1927, importation was possible if the Secretary of Agriculture determined that a region of the Argentine was free from the foot-and-mouth disease and if he found that importation from such region would not subject the United States to danger of infection from this disease. But under Section 306 of the Tariff Law of 1930, imports of animals or meat products from a country in which foot-and-mouth disease exists at all are to be excluded, even if they come from a region of the country which is free of the disease.

Argentina objects bitterly to this application of our sanitary regulations on a country-wide basis, contending not only that that great area of its country known as Patagonia is free from foot-and-mouth disease, but also that, if Argentina eradicates the disease from other regions, her meat products will still be barred from the United States, even though the disease exists in only one small, isolated region. Argentina recognizes that at present the United States is justified in applying its sani-

tary regulations to certain sections of the country, but it strongly maintains that there is no justification for the application of the sanitary embargo to the unaffected or unexposed zones.

THE SANITARY CONVENTION

It was in order to remove these grounds of complaint that the proposed Sanitary Convention was signed between the United States and Argentina on May 24, 1935. Each party to the convention would have the right to make inspections and investigations in the territory of the other to determine for itself whether animal and plant products coming therefrom are free from "infection or infestation or exposure to disease or insect pests, before entry is permitted." In case of disagreement between the two parties to the convention over any matter in connection with the operation of their respective sanitary laws or regulations relating to animal and plant products, provision is made for the creation of a committee of technical experts. Such committee, however, would have the power only to make recommendations; each of the parties to the convention would retain the right to take such action as it deemed necessary to safeguard its interests.

In other words, the proposed Sanitary Convention would permit the United States to take any action necessary for the purpose of protecting its animal and plant life from the danger of infection from importation of animal or plant products originating in the Argentine. But any measures taken by the United States would have to be strictly for sanitary purposes, and not used as a cloak to exclude the products of the Argentine from such competition as is permitted under the tariff laws of the United States.

But the convention was opposed by the American livestock producers and it

now rests, unacted upon, in the files of the Foreign Relations Committee of the Senate.

THE QUESTION OF BY-PRODUCTS

By-products of the livestock industry are not subject to the prohibition of the quarantine law, but they are subjected to high import taxes, and these restrictions have contributed to the commercial difficulties between the United States and Argentina.

The United States is not and never will be self-sufficient in these by-products. All livestock producers regulate their production according to the demand for their "products" and not according to the demand for their "by-products." Cattle, for instance, are produced according to the demand for beef and not according to the demand for hides. To supply at home all the leather needed in the United States would require the development of a breed of cattle which would shed their hides each year like a snake! Or—to cite another example—if the American public should suddenly acquire the fad of eating tongue sandwiches at every meal, it is obvious that the meat producers in the United States could not supply the demand, since they cannot afford to grow steers to sell only the tongues.

The total amount of money which the packers get for the rounds, ribs, and loins will always be the main factor that will determine the production of cattle; but at the same time, the carcass yields other meats of lower quality, like plate, navels, and trimmings. In former times, when no demand existed for lower-quality meats, they were canned and sold mostly in the form of canned corned beef; but when the demand for hamburgers and "hot dogs" arose, the production of canned beef was curtailed, because it is more profitable to sell the beef fresh. Domestic

canned corned beef is no longer produced commercially, and the increase in duty in 1930 from 3 cents per pound to 6 cents per pound on this product did nothing to change this economic tendency. In South America, the situation is different. Neither the consuming public of the Pampas nor the European buyers are keen about "hot dogs" and similar products, and there is therefore in Argentina a large surplus of the lower cuts of meat which are transformed into canned corned beef. Sometimes even better cuts are used for this purpose.

A change in the duty on these lower types of beef could be made without hurting the cattle growers of the West and with great benefit to the American people, particularly people in the low income brackets who cannot afford to buy the high-grade meats. It would probably result in an increase in the importation of corned beef and similar products, but it would merely meet a demand which the American cattle grower cannot supply. The added purchasing power thus created would enable South Americans to buy many more American products. Detroit workers in automobile plants would, for example, order more steaks than they could otherwise have done, and as a result, the western farmer would find the real basis for producing more carcasses.

CAUSES OF UNSATISFACTORY CONDITION

The Argentine Government must share the blame for the unsatisfactory condition of American-Argentine trade. Its exchange discriminations have seriously injured American export trade, and it has allowed too large a place to political emotionalism in the negotiations designed to improve the direct trade between the two countries.

But in the larger aspects of trade it must be admitted that American-Argentine trade is a victim of an economic

system which broke up triangular trade and forced on Argentina a series of bilateral exchange arrangements. Argentina's surpluses in many cases compete with our surpluses. When her surpluses are canalized to Great Britain or to Continental countries, her free exchange is limited and American business suffers.

A joint marketing organization, therefore, might go far to help solve the trade difficulties between the two countries. It would give them a common interest in the disposition of their competitive surpluses, and it would permit Argentina to discontinue burdensome bilateral arrangements gradually and to restore sound policy in her commercial relations.

LIMITED USEFULNESS OF THE CARTEL

The proposal of the inter-American marketing organization has in its favor that it has dramatized the crisis which we *may* (and I emphasize the contingency) have to meet. But on second thought—on the morning after, as it were—we have the disillusioning emotion that the solution is too simple; that a limited application of the idea here or there (for example, in the marketing of certain of the competing surpluses of the United States and Argentina) may be useful, but that only as a desperate measure of self-defense should we embark on a scheme to create a gigantic monopoly of the export trade of the Americas.

Then, we also begin to realize that tomorrow is not going to be so radically different from yesterday as we had in our fright supposed. Even Hitler cannot (and may not wish to) suspend all the normal processes of economic and social life, and some warships and airplanes may help him to make up his mind on this point. Solving a few political problems would help us to return to a more balanced approach to inter-

American economic problems. If our security is threatened as seriously as some writers tell us, we need direct military operations rather than marketing schemes.

It is only as a temporary measure that anything can be said in support of the marketing cartel. Like warships and bombers, it may become an undesirable necessity. It may be an instrumentality of economic defense and warfare which we shall have to adopt just as we mine the Panama Canal and build airfields at strategic points. If the masters of a unified Europe should undertake to buy the surpluses of the Americas on their own terms, offering goods in barter, defense would demand unified bargaining in this hemisphere (and probably something more), for dependency of Latin American countries upon a Nazi-dominated Europe would soon produce a Nazi-dominated Latin America. To such a problem a joint marketing agency would not be a complete answer—a warship or two would be a better answer—but it might be one of the answers, and distasteful as it might be, we might have to accept it as the least of several evils.

A SELF-DEFEATING MEASURE

But the tragedy of a proposal such as the inter-American marketing organization is that it plays into the hands of those reformers who oppose the system of private enterprise and who favor government control and operation. In this country they are the advocates of the very methods which the marketing cartel would be set up to oppose. They argue plausibly, but in the spirit of surrender, that government-controlled foreign trade can be met only in kind. They blame private enterprise in foreign trade and finance as they have blamed it in domestic business, and their objective is to extend the New Deal technique to foreign economic re-

lations—the technique of “relief,” “benefit,” and “subvention.” It is an easy technique for the bureaucracy as long as the taxpayers’ money lasts. It has expressed itself in the Inter-American Development Commission and in the proposed Inter-American Bank; and it would try to perpetuate itself in a joint marketing agency which, once set up, would create vested interests and inspire theories to support it, a sort of dole-economics. Let us not forget that Nazi methods have the support of their own peculiar economic theory and philosophy.

Collectivism in the nineteenth century was a reaction from the excesses of a laissez faire system. As time went on, the system of private enterprise profited by its criticism, and government became a regulator and umpire in economic endeavor. Then collectivism went further and set itself up as a system—a substitute for private enterprise—first in Russia, then in Italy, and then in Germany. In the United States it produced the program of the New Deal.

Under the administration of President Roosevelt the principles and methods of the trade treaties of Mr. Hull have been almost the only vigorous expression of the system of private enterprise. They still should remain the norm from which departures like the marketing cartel, if adopted in any form, should be considered only as a temporary concession to collectivism.

The Colombian delegation at the Lima Conference taught us the sound approach to economic aggression. It offered the draft of a convention⁷ with two distinctive features: (1) a reaffirmation of the system of liberal commercial policy, including the unconditional most-favored-nation principle; and (2) a condemnation of economic aggression and an agreement “to adopt a uniform

and joint commercial policy with respect to those states which have or hereafter may establish restrictive systems of international commerce contrary to the principles inspired by this treaty.” The convention then provides for consultation to make its provisions effective.

In other words, co-operation was to be a means to the end—the maintenance of sound commercial policy. This lesson should not be lost in considering the joint marketing organization. In critical times—war or depression—we tend to confuse means and ends. Usually we do not think of warships, tanks, and other arms as ends, but *means* adopted for economic defense easily attract followers who quickly begin to think of them as socially useful in normal times.

A DEFENSE MEASURE ONLY

The sound approach to the proposal of a joint marketing organization is this: If a European system under dictatorial power should attempt economic aggression in the New World, a joint marketing agency would be justified as a means of defense—as a political instrument, just as are tanks and airplanes. But just as with the passing of the emergency military disarmament becomes desirable, economic disarmament becomes equally desirable. In the setting up of any marketing cartel it should be affirmatively asserted as a part of the scheme that when the reason for its existence—economic aggression—disappears, the cartel shall be dissolved and private enterprise shall resume its sway.

The subject of this article is economic defense. The objective of the American people at this time is defense, economic and military. The test and the only test to be applied to a marketing cartel is whether or not it will effectively contribute to the achievement of this objective. Without rejecting the plan for the inter-American cartel, other means

⁷ *Dario de la VIII Conferencia Internacional Americana*, Lima, Dec. 18, 1938, p. 723.

should be explored. Funds have just been made available by the Reconstruction Finance Corporation to organize the Rubber Reserve Company and the Metals Reserve Company. They will acquire strategic raw materials as an aid to our defense program. Private companies operating in Latin America might be very useful in solving some problems of economic defense. In other situations a commercial treaty might be sufficient.

Foreign trade and foreign investment historically and in a very special sense belong to the field of private enterprise. In its effect upon them we may well consider whether an inter-American cartel would not accomplish more than economic defense, and whether that *more* would not be a cure worse than the disease. Social planners find in a world at war a happy hunting ground. We should therefore be vigilant to distinguish between temporary governmental projects, perhaps rendered necessary by depression or war, and the system of

free enterprise which releases man's productive powers and gives scope to his creative genius.

In an impoverished world we may come again to realize that property rights and personal rights are inseparable, and that personal freedom does not last long after the power of government has taken over free enterprise. Property rights may be the first to suffer in a regimented economy, but human rights are inevitably brought within the orbit of state power.

What I am trying to say is that the postwar world cannot be rebuilt by marketing cartels, state loans, subventions, and relief. By these and other governmental means we could patch up a sort of existence, but an impoverished world will ask for something more. It will ask for an economic system which will release the creative powers of man and which will provide economic stability and a degree of prosperity necessary for peace and for free democratic institutions.

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